

**RURAL WATER DISTRICT NO. 2
Mitchell County, Kansas**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

Year Ended October 31, 2012

**MARY E. ANDERSON
Certified Public Accountant
Osborne, Kansas**

RURAL WATER DISTRICT NO. 2
Mitchell County, Kansas
Financial Statements
For the Year Ended October 31, 2012

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Rural Water District No. 2
Mitchell County, Kansas

We have audited the accompanying financial statements of Rural Water District No. 2, Mitchell County, Kansas, as of and for the year ended October 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the Rural Water District, Mitchell County Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, and The Kansas Municipal Audit Guide. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A-1, due to billing procedures followed by Mitchell County Rural Water District No. 2, Mitchell County, Kansas, we were unable to confirm total accounts receivable as of October 31, 2012.

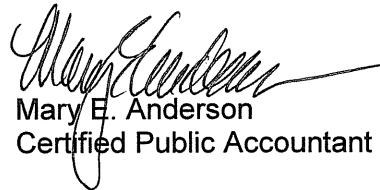
In our opinion, except for the effects, if any, of such adjustments to financial statements as discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Rural Water District No. 2, Mitchell County, Kansas, as of October 31, 2012 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Page Two

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Rural Water District No. 2, Mitchell County, Kansas. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the use of the Board and management and the cognizant federal and state agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which upon acceptance by Rural Water District No. 2, Mitchell County, Kansas, is a matter of public record.

January 4, 2013



Mary E. Anderson
Certified Public Accountant

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
BALANCE SHEET
October 31, 2012
(With Comparative Totals for October 31, 2011)

ASSETS

	Totals	
	(Memorandum Only)	
	2012	2011
Current Assets		
Cash on hand	\$ 50	\$ 50
Cash in bank	56,500	79,852
Investments - unrestricted	290,776	130,589
Investments - restricted	107,976	108,352
Accounts receivable	51,706	44,628
Other income	-	1,152
Prepaid Expense	587	768
Inventories	38,749	38,311
Kansas Bond Escrow	<u>107,976</u>	<u>371,690</u>
 Total Current Assets	 654,320	 775,392
 Plant, Property and Equipment at cost		
Fixed assets, net of accumulated depreciation		
Treatment plant	1,581,644	1,643,947
Water lines	1,037,779	1,112,922
Equipment and vehicles	50,852	45,595
Land	<u>2,700</u>	<u>2,700</u>
 Total Plant, Property and Equipment	 2,672,975	 2,805,164
 Other Assets		
Bond issue costs less amortization	50,405	54,820
Easements	267	267
Patronage dividends	<u>996</u>	<u>956</u>
 Total Other Assets	 <u>51,668</u>	 <u>56,043</u>
 Total Assets	 <u>\$ 3,378,963</u>	 <u>\$ 3,636,599</u>

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
 BALANCE SHEET - CONTINUED
 October 31, 2012
 (With Comparative Totals for October 31, 2011)

LIABILITIES, FUND EQUITY AND RETAINED EARNINGS

	Totals	
	(Memorandum Only)	
	2012	2011
Current Liabilities		
Accounts payable	\$ 13,746	\$ 20,124
Accrued wages	6,400	6,400
Accrued interest	17,975	26,670
Accrued expenses	3,328	2,900
Bond notes payable - Current	<u>90,000</u>	<u>85,000</u>
Total Current Liabilities	131,449	141,094
Long-Term Liabilities		
Bond payable	<u>640,000</u>	<u>990,000</u>
Total Long-Term Liabilities	<u>640,000</u>	<u>990,000</u>
Total Liabilities	771,449	1,131,094
Fund Equity		
Member contributions	247,860	240,860
Other contributions	2,105,464	2,105,464
Retained earnings (deficit) - reserved	<u>254,190</u>	<u>159,181</u>
Total Fund Equity	<u>2,607,514</u>	<u>2,505,505</u>
Total Liabilities and Fund Equity	<u>\$ 3,378,963</u>	<u>\$ 3,636,599</u>

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN RETAINED EARNINGS/FUND BALANCES
For the Year Ended October 31, 2012
(With Comparative Totals for October 31, 2011)

	Totals	
		(Memorandum Only)
	2012	2011
Operating revenues		
Water sales	\$ 457,869	\$ 412,140
Operating Expenses		
Treatment plant	199,850	184,683
Distribution and operating	167,902	163,786
Depreciation and amortization	147,104	147,470
Total Operating Expense	514,856	495,939
Operating Income (Loss)	(56,987)	(83,799)
Non-operating revenue/expenses		
Debt service revenue	170,508	169,682
Interest revenue	2,045	3,459
Penalty revenue	2,948	3,189
Interest expense	(35,950)	(53,340)
Miscellaneous income & reimbursement	12,405	16,184
Dividends	40	40
Total Non-operating Revenues/Expenses	151,996	139,214
Net Income (Loss)	95,009	55,415
Retained Earnings (deficit)/Fund Balance, Beginning of Year	159,181	103,766
Retained Earnings (deficit)/Fund Balance, End of Year	\$ 254,190	\$ 159,181

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
STATEMENT OF CASH FLOWS
For the Year Ended October 31, 2012
(With Comparative Totals for October 31, 2011)

	Totals	
		(Memorandum Only)
	2012	2011
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ 95,009	\$ 55,415
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	147,104	147,470
Changes in working capital		
(Increase) decrease in accounts receivable	(7,078)	5,522
(Increase) decrease in inventories	(438)	8,031
(Increase) decrease in prepaid expenses	1,384	589
Increase (decrease) in accounts payable	(6,378)	(36,188)
Increase (decrease) in accrued interest	(8,695)	(1,680)
Increase (decrease) in accrued expenses	427	(199)
Net Cash Provided (Used) by Operating Activities	<u>221,335</u>	<u>178,960</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(10,500)	(1,322)
(Increase) decrease in bond escrow account	263,714	(263,338)
(Increase) decrease in investment funds	(159,811)	(114,671)
(Increase) decrease in patronage dividends	(40)	(20)
Net Cash Provided (Used) by Investing Activities	<u>93,363</u>	<u>(379,351)</u>
Cash Flows from Financing Activities:		
Long-term debt repayments	(345,000)	(85,000)
Contributed capital by members	7,000	5,750
Net Cash Provided (Used) by Financing Activities	<u>(338,000)</u>	<u>(79,250)</u>
Net Increase (decrease) in cash	(23,302)	(279,641)
Cash at beginning of year	<u>79,852</u>	<u>359,493</u>
Cash at end of year	<u>\$ 56,550</u>	<u>\$ 79,852</u>
Supplemental Disclosure:		
Actual cash paid for interest	<u>\$ 44,645</u>	<u>\$ 55,020</u>

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
For the Year Ended October 31, 2012

	Enterprise Fund		
	Budget	Actual	Variance- Favorable (Unfavorable)
<u>Operations</u>			
Revenue - operating			
Water sales - individuals	\$ 220,000	\$ 237,368	\$ 17,368
Water sales - commercial	225,000	220,501	(4,499)
Penalties	-	2,948	2,948
Total Revenues	445,000	460,817	15,817
Expenditures - operating			
Treatment plant	234,000	199,850	34,150
Operating and distribution	207,000	167,902	39,098
Total Expenditures	441,000	367,752	73,248
Excess revenues over (under) expenditures	4,000	93,065	89,065
Non-Operating Income (Expense)			
Interest	500	2,045	1,545
Patronage dividends	-	40	40
Miscellaneous	5,000	12,405	7,405
Net Income (Loss) from Operations	9,500	107,555	8,990
Less depreciation and amortization allowance	(148,500)	(147,104)	1,396
Net Income (Loss) with Depreciation	\$ (139,000)	\$ (39,549)	\$ 10,386
<u>Principal and Interest</u>			
Debt reduction income	\$ 172,000	\$ 170,508	\$ (1,492)
Principal payment & penalty	(85,000)	(345,000)	(260,000)
Interest	(48,500)	(44,645)	3,855
Net Over (Under)	\$ 38,500	\$ (219,137)	\$ (257,637)

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
SCHEDULE OF MATURITY OF LONG-TERM DEBT
For the Year Ended October 31, 2012

	YEAR						
	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>Thereafter</u>	<u>Total</u>
PRINCIPAL							
Water System Revenue Bonds, Series A	\$ 95,000	\$ -	\$ -	\$ -	\$ 545,000	\$ -	\$ 640,000
INTEREST							
Water System Revenue Bonds, Series A	<u>17,765</u>	<u>13,625</u>	<u>13,625</u>	<u>13,625</u>	<u>10,805</u>	<u>-</u>	<u>69,445</u>
Total Principal and Interest	<u>\$ 112,765</u>	<u>\$ 13,625</u>	<u>\$ 13,625</u>	<u>\$ 13,625</u>	<u>\$ 555,805</u>	<u>\$ -</u>	<u>\$ 709,445</u>

The accompanying notes are an integral part of these statements.

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
STATEMENT OF CHANGES IN LONG-TERM DEBT
For the Year Ended October 31, 2012

	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance End of Year</u>
Water System Revenue Bonds, Series A, 2002	4.2-5.25	7/10/2010	\$ 1,440,000	11/1/2018	\$ 1,075,000	-	(345,000)	(345,000)	\$ 730,000

ISSUE

The accompanying notes are an integral part of these statements.

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
October 31, 2012

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 2, Mitchell County, Kansas, was incorporated under the provisions of the State of Kansas. The District operates as a quasi-municipal corporation under Kansas Statute KSA 82A-612 and is not subject to federal or state income tax.

1. Enterprise Fund Accounting

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District's books are kept on the modified accrual method of accounting whereby income is recorded when received and expenses when incurred. The District follows common industry procedures on water sales receivables. Customers read individual meters monthly and send payments with readings to the District office. Unbilled accounts receivable are recorded annually when meters are read by the District board members. The District does not maintain an allowance for doubtful accounts. When an account is determined uncollectible it is deducted from the accounts receivable and charged to water sales. No accounts were deemed uncollectible at October 31.

2. Inventories

Chemicals and parts inventories are priced at the lower of cost (first-in, first-out) or market.

3. Plant, Property and Equipment

Fixed assets and equipment are valued at historical costs and depreciated using the straight-line method over their estimated useful lives. The lives and cost by type of asset are as follows:

	<u>Life</u>	<u>Cost</u>	<u>Acc. Depr.</u>
Treatment plant	20-50 years	\$ 2,570,993	\$ 989,349
Water lines	40-50 years	3,123,865	2,086,086
Equipment & vehicles	5-10 years	184,374	133,522
Land	---	<u>2,700</u>	<u>---</u>
Totals		<u>\$ 5,881,932</u>	<u>\$ 3,208,957</u>

4. Bond Issue Amortization

Costs for bond issuance for Water Utility System Bonds issued November 4, 2002 was \$88,300.00. This cost will be amortized over the life of the bonds.

	<u>Life</u>	<u>Cost</u>	<u>Acc. Amort.</u>
Fees	10 years	\$88,300	\$ 37,895

5. Investments

The Board designates a transfer of \$13,510.00 per month to reserve investments. Board designated investments consist of certificates of deposit and money market funds at October 31, 2012 is as follows:

Central National Bank, Glen Elder and Tipton, Kansas-Reserved	\$ 107,976
Central National Bank, Glen Elder and Tipton, Kansas-Unreserved	<u>\$ 290,776</u>
Total Investments	<u>\$ 398,752</u>

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
October 31, 2012

NOTE A. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

6. Long-Term Liabilities

The original note with Co-Bank was dated June 7, 1988 for the amount of \$991,145 with 264 monthly payments of \$9,700.56. This mortgage was paid off with Water Utility System Bond issue dated November 4, 2002 in the amount of \$598,315. Penalty for early payoff was \$149,019.

November 2, 2002 the District approved a resolution authorizing \$1.915 million in Water Utility System Revenue Bond Series A and B. These Bonds are non-taxable and principal will be paid annually on November 1, beginning November 1, 2004 on Series B. Series A will require interest payments semi-annually for seven years and principal will be paid annually beginning November 1, 2010.

Interest will be paid semi-annually on May 1 and November 1, beginning on May 1, 2004. Series A, 2002 Bonds mature on November 1, 2022 and are subject to redemption prior to their stated maturities. Series B, 2002 Bonds are not subject to optional redemption and mature on November 1, 2010.

On September 3, 2010 the Board approved Resolution No. 09-09 which authorized the Board to prepay series A, 2002 Water System Revenue Bond cusped numbers: 606541AEO and 606541AEO due November 1, 2021 and 2022. This bond payment lowered the long term bonds due by \$285,000.00. In September 2011, the board approved resolution No. 09-11 which authorized the call of bonds 606541AE7 and 606541AEO due November 2019 and 2020 which lowered long term bonds by \$260,000.

7. Budget

The budget amounts shown on the financial statements are the final authorized amounts for the fiscal year.

8. "Memorandum Only" Columns

Total columns for fiscal year ended October 31, 2011, captioned "memorandum only" on the financial statements are presented only to facilitate financial analysis. Data in these columns do not purport present financial position, results of operations, or changes in financial position.

9. Debt Service Revenue

Included in debt service revenues is a \$21.50 per month charge to each benefit unit as a debt reduction fee. Other municipalities also pay a monthly debt service fee as stated in their contract, amounts which are included in this revenue.

10. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers cash on hand and cash in bank-NOW account to be cash equivalents.

11. Compensated Absences

The District allows one week paid vacation after one year of employment, after two years employment allowed vacation is two weeks and upon completion of ten full years of employment, employees then have three weeks paid vacation. The District also allows sick leave pay after completion of six months of full time employment which may accumulate to a maximum of thirty days. Accumulated vacation and sick leave appear to be immaterial at October 31, 2012.

12. Self Insurance

The District purchases liability/workers compensation and property insurance and does not self-insure. All claims for the year ended October 31, 2012 did not exceed coverage.

13. Amortization

Total bond issue costs for Series A and B State Revenue Bond was \$88,300. This amount is being amortized over the life of the bond. Current year amortization is \$4,415.

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
October 31, 2012

NOTE B. LITIGATION

The District may be a party to various claims, none of which would be expected to be material.

NOTE C. OPERATING RATIO

The Board of Directors strives to operate at a minimum of 1.14 operating ratio so that the reserve equals annual principal and interest payment, with total reserves being \$107,950 at October 31, 2011

2011 Debt Service Ratio Computation:

Revenues less expenses (less interest and depreciation) = debt service
Annual interest and principal payment ratio

$$\frac{645,815 - 367,751}{107,975} = 2.57$$

Operating ratio for year ended October 31, 2011, was 1.92.

NOTE D. DEFINED BENEFIT PENSION PLAN

Substantially all employees of Rural Water District No. 2, Mitchell County, Kansas participate in the Kansas Public Employees Retirement System ("System"), a multiple-employer public employee retirement system. The payroll for employees covered by the System for the year ended October 31, 2012 was \$82,050.

Substantially all employees of Rural Water District No. 2, Mitchell County, Kansas are eligible to participate in the System after one year of employment. Employees who retire at or after age 65 or age 62 with ten years service credit or at any age when years of service plus age equal 85 "points" are entitled to a retirement benefit, payable monthly for life, equal to one percent of their final average salary for each year of "prior" service and 1.75 percent for each year of "participating" service. Final average salary is the employee's average salary over the higher of four years of credited service including add-ons such as accrued sick leave and vacation leave or a three year average without add-ons. For those hired July 1, 1993 or later, final average salary is a three year average with no add-ons. Benefits fully vest on reaching ten years of service. Vested employees may retire at age 55 and receive reduced retirement benefits. The System also provides death and disability benefits. Benefits are established by State statute.

Covered employees are required by State statute to contribute four percent of their salary to the plan. The employer is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. The contribution requirement for the year ended October 31, 2012 was \$9,140 which consisted of \$5,858 from the employer and \$3,282 from employees. These contributions represented 4.0% of covered payroll for the employee's share and 7.14% for the employer's share.

NOTE E. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

RURAL WATER DISTRICT NO. 2, MITCHELL COUNTY, KANSAS
 SCHEDULE OF EXPENSES
 For the Year Ended October 31, 2012
 (With Comparative Totals for October 31, 2011)

	Totals	
		(Memorandum Only)
	2012	2011
Treatment Plant Expenses		
Wages	\$ 32,505	\$ 31,605
Purchase of Water	17,153	14,355
Fuel and power	31,510	31,901
Chemicals and lab fees	62,167	62,536
Supplies	5,299	431
Repairs	14,016	2,492
Payroll taxes and employee benefits	22,144	25,429
Pickup expense	746	769
Insurance	8,892	10,643
Audit	917	721
Legal	38	179
Meeting and Mileage	3,084	2,967
Miscellaneous	1,379	655
Total Treatment and Plant Expenses	<u>\$ 199,850</u>	<u>\$ 184,683</u>
Distribution and Operating Expenses		
Fuel and power	\$ 26,769	\$ 20,777
Supplies	2,693	658
Repairs and maintenance	15,553	16,039
Wages	49,545	48,195
Office	7,934	9,165
Insurance	5,435	6,134
Payroll taxes and employee benefits	40,312	42,483
Miscellaneous	3,349	3,428
Meeting and mileage	3,085	2,968
Pickup expense	5,683	5,867
Truck and Digger	2,354	3,476
Audit and legal	1,870	1,738
Water distribution fees	3,320	2,838
Total Distribution and Operating Expenses	<u>\$ 167,902</u>	<u>\$ 163,766</u>

The accompanying notes are an integral part of these financial statements.